

19 February 2015

METIS 911124

Education Report: Māori Education Trust and Sale of Mapuna Atea Farm

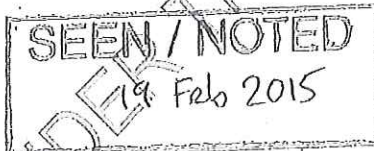
Recommendations

We recommend that you

- a. **note** that the Māori Education Trust appears to be within its rights to dispose of Mapuna Atea farm.
- b. **note** the summary of Māori Education Trust's current position
- c. **note** that the mutual obligations of the Māori Education Trust and the Ministry regarding the payment of scholarship subsidies
- d. **note** the initial options set out for future involvement with the Māori Education Trust
- e. **note** that further work is continuing on options and we will update you next week
- f. **forward** a copy of this report to the Minister of Māori Development for his information


Rāwiri Brell
Deputy Secretary
Early Learning, Parents and Whānau

NOTED



Hon Hekia Parata
Minister of Education

Education Report: Māori Education Trust and Sale of Mapuna Atea Farm

Purpose of report

1. The purpose of this report is to provide you with information on the Māori Education Trust's (MET) proposed sale of Mapuna Atea Farm and background on the current position of MET, to outline the Ministry's obligations in relation to MET and to make an initial identification of further options. Further update will be provided to you next week when we have fully considered the options available.

Mapuna Atea Farm Sale

2. MET has put its Mapuna Atea farm on the market. The sale of the farm is needed to retire debt, improve the liquidity of the Trust and provide more suitable investments to provide an income stream for future scholarships: [REDACTED]

s 9(2)(ba)(i) OIA [REDACTED]

3. There has been media coverage suggesting that the land was gifted to fund scholarships for Wairarapa candidates and a desire for the land to be returned to the iwi.

4. In response to questions from us, MET has replied that:

s 9(2)(ba)(i) OIA [REDACTED]

We have not asked for further confirmation of these matters.

5. [REDACTED]

s 9(2)(ba)(i) OIA [REDACTED]

MET Current Position

6. MET was established as an independent trust by deed dated 21 June 1993. It is registered with the Charities Service.

Its purposes are:

- To provide financial assistance to Māori for their education.
- To promote and advocate for quality education of Māori.
- To establish and maintain quality strategic relationships with individuals, iwi, key organisations and Government agencies in pursuit of promoting opportunities to provide better education to Māori.
- To undertake all other activities directly associated with the encouragement and better education of Māori, including those set out from time to time in the Trust's Strategic Plan.

8. The class of beneficiaries is defined as Māori whose wellbeing will be enhanced by the promotion and provision of improved education. Essentially all Māori.
9. MET is the recipient of a variety of gifts and bequests which may individually be subject to different terms and restrictions.
10. Charities services advise that they have no compliance activities in relation to MET, and that MET is up to date with all its reporting requirements to Charities Services, including financial reporting.
11. The Ministry of Education supports the work of MET through a dollar for dollar scholarship subsidy up to a limit of \$664,000 per year, and a contribution to administrative costs of \$109,000 per year. In 1994 Cabinet agreed that MET "will award secondary and tertiary scholarships and awards to students of Māori descent on the basis of merit and financial need." [ECR (94) 148 refers]. Use of the subsidy and administration fee are documented in agreements negotiated between the Ministry (through Group Māori) and MET.
12. MET has struggled to access the subsidy and administration fee because it has been unable to supply the Ministry with audited financial accounts in a timely manner. The completion of the 2011/12 has enabled us to pay the scholarship subsidy for the 2013 year. No further payments can be made under the most recent agreement until the 2013 accounts have been audited.
13. A list of MET's current board members is provided as Appendix One.

MET Background

14. MET has experienced difficulties of one kind or another since at least 2009 (refer Appendix Two). We are reviewing the Ministry's response to MET's situation.
15. In 2009 MET approached the Minister of Māori Affairs for a \$1.5 million loan to provide cash flow. It then informed the Ministry that it was not in a position to pay scholarship instalments that were due to recipients on 1 October of that year. The Ministry was obliged, at short notice, to pay the full instalment amount due to recipients (\$340,600); that is, both the amount due from MET and the Crown's subsidy amount.
16. As a result, the Ministry facilitated the appointment of an advisor to the MET Board. The advisor put in place a recovery package that included refinancing and consolidating debt for several purposes including further farm development and restructuring the office operation. In the event, the farm investments have proved highly problematic, and MET has been systematically divesting itself of these assets. The planned sale of Mapuna Atea is the most recent in this sequence.
17. In July 2011 MET again approached the Ministry for assistance in paying scholarships. This time because the audit for 2010 was not complete, therefore the 2011 contract with the Ministry could not be signed, and the subsidy could not be paid. On that occasion the Ministry paid \$281,750 direct to recipients.

18. The Secretary of Education wrote to MET after payment had been made and asked for "formal advice as to how the Trust will assure...the current situation will not happen again..." (copy enclosed). MET advised that it was replacing staff responsible for the delay [in audit]; improving systems to provide accurate record-keeping and proper accounting for funds received and spent; improving MET's relationship with its auditors; and separating the farms from the Trust so that both operated independent financial systems.

19. In the interim, MET progressed the disposal of some of its farms, including a transfer to a joint venture with Te Tumu Paeroa that effectively converted MET from farm owner to landlord.

20.

s 9(2)(ba)(i) OIA

21. We have focussed on the period from the end of 2013, by which point the ongoing nature of the accounting issues had crystallised and our engagement with MET intensified.

MET's Obligations

22. Under the terms of the agreements entered into to date (these carry through to 30 June 2014), MET is obliged to inform us of the amount of income it has available for distribution for each year, distribute scholarships, provide audited accounts each October, to provide a record of scholarships made during the calendar year and audited accounts for the previous financial year.

23. MET has met all its obligations except for the timely provision of audited statements. This has meant that we have only been able to pay the subsidy retrospectively, which has in turn limited the quantum of scholarships that MET could pay out. Appendix 3 sets out the total number of scholarships actually paid by the MET and Appendix 4 sets out the quantum of subsidy unspent.

24. MET has continued to administer scholarships throughout to the limit of its funding. The delays are not associated with this part of MET's activity.

s 9(2)(h) OIA

The Ministry's Obligations

25.

26. We have an agreement with MET which extended to 30 June 2014. We have met our current obligations under that agreement. We will not enter into a further agreement until MET demonstrates acceptable progress towards its existing obligations.

s 9(2)(h) OIA

s 9(2)(h) OIA

[REDACTED]

27. Since the end of 2013, Group Māori has worked intensively with MET, Audit New Zealand, our risk and legal teams to manage this situation and provide support to MET going forward. In addition to procedures undertaken by Audit New Zealand, we have undertaken further work of our own to ensure that the scholarships have been paid as represented and that we can be certain that the subsidy has been applied to the purposes for which it was intended.

28. We will look in to what other steps we could have taken to support MET to meet its obligations.

29. Whilst MET are still not up to date with their accounts, they report strong progress. It has changed accounting provider, and accounting process. 2013 accounts are nearly complete and 2014 accounts are underway. Auditors will have access to complete documentation substantiating each amount.

30. MET has been focussed on revising its holdings [REDACTED]

s 9(2)(ba)(i) OIA

Future Options

31. These are some further actions we have considered:

- Appoint an independent auditor to provide full assurance that public funds have been properly applied.
- Refer the conduct of MET to Charities Services.
- Compel a review of MET's trust deed (by withholding further contracts).
- Divert the funding to another organisation for distribution.
- Seek to divert the unused balance only.

32. We will investigate these alternatives further to provide you with a more detailed analysis of future options to support MET, improve accountability and maximise reach of the scholarship subsidy.

What would be required to stop funding MET

33. To withdraw from the arrangement with MET we would have to undertake a consultation followed by Ministerial and Cabinet decision. We could expect this to be challenged.

Appendix One: Current MET Board Members

Dame Iritana Tawhiwhirangi (Co-Chair)

Te Huia Bill Hamilton (Co-Chair)

Bronwyn Yates

Monita Delamere

Linda Grennell

Prue Kapua as current President of the Māori Womens' Welfare League.

RELEASED UNDER THE OFFICIAL INFORMATION ACT

Appendix Two: Timeline for MET updated as at 19 February 2015

| | |
|-----------------------------|--|
| September 2009 | MET approaches the Minister of Māori Affairs for a \$1.5 million loan to provide cash flow. |
| September 2009 | MET then informed the Ministry that it was not in a position to pay scholarship instalments that were due to recipients on 1 October. Ministry, at short notice, paid the full instalment amount due to recipients (\$346,600); that is, both the amount due from MET and the Crown's subsidy amount. |
| October 2009 | Ministry facilitated the appointment of an advisor to the MET Board. The advisor put in place a recovery package. |
| December 2009 | The advisor reported that MET was well on track to completing the steps necessary to stabilise its business. This included securing finance for farm development, finalising its budget and staffing requirements, and reconciling amounts owed by and due to the Trust as a consequence of payments made to scholarship holders by the Ministry. |
| January 2010 | New agreement signed between the Ministry and MET to provide services regarding administration of scholarships and the scholarship subsidy for the period 1 March 2008 – 30 June 2010. |
| May 2010 until October 2010 | MET, with the support of Te Puni Kōiri contracted [REDACTED] as the [REDACTED] was contracted to coordinate the Trust's activities and ensure the ongoing health and wellbeing of the scholarship bequests |
| May 2010 | MET managers advised the Ministry that the farms are a limited liability company and are separate from the Trust's scholarship activities. This was to enable the office staff to focus on the administration of the scholarships and subsidy |
| 15 June 2010 | <p>MET met with representatives of the scholarships that it administers and the Ministry at the Brentwood Hotel in Wellington. The purpose was to strengthen relationships between the parties and to consider improvements to the way the scholarships are administered.</p> <p>Matters discussed at this meeting included:</p> <ul style="list-style-type: none"> • The Trust's intention to build stronger relationships with its scholarship donors/funding groups and move away from dependency on government departments. • Representatives from the provider groups suggested particular ways in which administration of the scholarships should be improved such as inclusion of providers in the selection process, promoting the prestige of the scholarships, celebrating the award of the scholarships to recipients, ensuring that the criteria reflect the unique qualities and values of the person or organisation that the scholarship commemorates, and recipients should exemplify how qualifications and skills attained will benefit their communities locally, regionally and nationally. • Some of the provider groups were averse to the notion of the Trust charging an administration fee to manage the scholarships on their behalf. • The maximum scholarship amounts available have not been fully expended annually. Providers of the scholarships requested that the Trust use its best efforts to allocate the total amount. |

§ 9(2)(a) OIA

| | |
|------------------|--|
| 28 June 2010 | Mr Bill Hamilton and Dame Iritana Tawhiwhirangi met with Karen Sewell and Apryll Parata to thank the Ministry for the level of support provided from the Ministry to MET at the end of 2009 |
| July 2010 | The Ministry noted in an update for the Minister of Education that the Ministry has paid only a portion of the amount owed to MET since March 2008, as certain reports remain outstanding particularly the audited accounts for the year ended 30 June 2009. It was noted that the Ministry understood from the Office of the Auditor General that this audit was near completion. This is also the reason that the agreement signed in January 2010 was not renewed on its expiry on 30 June 2010. |
| 9 August 2010 | MET completed its audited accounts for the year ended 30 June 2009. The Ministry then reviewed the audited accounts and reports provided by MET to ensure that all requirements had been met before payment to the Trust could be made. |
| 26 August 2010 | Mr Bill Hamilton and Dame Iritana Tawhiwhirangi met Minister of Education, Hon Anne Tolley. |
| July 2011 | MET again approached the Ministry for assistance in paying scholarships. The reason was the audit for 2010 was not complete, therefore the 2011 contract with the Ministry could not be signed, and the subsidy could not be paid. On that occasion the Ministry paid \$281,750 direct to recipients on 27 or 28 July. |
| 26 July 2011 | Agreement signed covering the period 1 January 2011 to 31 July 2011 to enable payment to MET of the administration fee funding. |
| 29 July 2011 | Approval memo for payment of administration fees January to July 2011 |
| August 2011 | We wrote to MET after payment had been made and asked for "formal advice as to how the Trust will assure...the current situation will not happen again..." MET replied that it was replacing staff responsible for the delay [in audit], improving systems to provide accurate record-keeping and proper accounting for funds received and spent; improving MET's relationship with its auditors; and separating the farms from the Trust so that both operated independent financial systems |
| 6 September 2011 | Letter to MET from Secretary for Education: <ul style="list-style-type: none"> - Acknowledging steps being taken by MET - Advising that notwithstanding those steps, we were not certain that that payments due to recipients in that month would be paid by MET - Seeking authorisation for the Ministry to contact MET's auditors direct - Asking MET to advise how it planned to pay September scholarship amounts |
| 11 October 2011 | Audited accounts for year ending 30 June 2010 completed |
| 30 May 2012 | Agreement signed covering the period 1 August 2011 to 31 December 2012 for subsidy and administration fee. The agreement provides for audited accounts to be part of required reporting. |
| September 2012 | Payments to MET for scholarships, comprising: <ul style="list-style-type: none"> • Washup for one 2010 scholarship type • Final washup for calendar 2011 scholarships • Interim payment for 2012 scholarships Audits for years ending 30 June 2011 and 30 June 2012 were incomplete as at 4 June 2014, preventing further payments. |
| 2 December 2013 | Meeting with MET to discuss lack of progress on completion of audited accounts and effect this has on payment on scholarship subsidy and administration fee. |
| 4 April 2014 | Letter to MET once again expressing concern about the non-completion of audit for 2011 and 2012 accounts and asking for a meeting. |
| 19 May 2014 | Further meeting with MET on same subject. Ministry stated its concerns |

| | |
|----------------------|---|
| | about the continued underspend of the subsidy because of non-completion of audits, and that a firm date for completion was needed. Otherwise we would look at alternative uses for funding. MET committed to a "line in the sand" of 31 May 2014 to have audit completed for years ending 30 June 2011 and 30 June 2012. Then by August 2014, annual accounts for 30 June 2013 would be ready for audit. |
| 31 May 2014 | Deadline above not met |
| 2 June 2014 | Audit NZ advises MET (copy to Ministry) that it may conclude that the Trust is not a going concern because there is not enough annual revenue to cover the Trust's operating costs. That is, unless it is certain that it can borrow more, or liquidate another farm investment within the next 12 months. |
| 4 June 2014 | MET manager phones to advise that the audit letter is expected to be available on Friday 6 June. She cannot say if that would include a qualified or modified audit opinion. |
| 26 June 2014 | Audited (unqualified) annual accounts received from Audit New Zealand for years ended 30 June 2011 and 30 June 2012. |
| 27 June 2014 | Letter of agreement signed with MET regarding provision of assistance to MET for the period 1 January 2013 to 30 June 2014 |
| 31 August 2014 | Expected deadline for preparation of accounts for year ended 30 June 2013; deadline not met |
| May to November 2014 | <p>During this period the Ministry carried out checks to make sure as far as possible that MET had paid the scholarships they said they had; and to verifiable students.</p> <p>We took advice from the Chief Internal Auditor about what tests we should carry out, what records we should sample and what might constitute an acceptable error rate.</p> <p>Throughout the period we were in possession of MET paper records for all scholarships awarded for the 2012 and 2013 academic years. That is to say, application forms and supporting information supplied by applicants.</p> <p>We carried out three tests:</p> <ul style="list-style-type: none"> • We matched recipient names as provided by MET with student numbers from Ministry databases, to ensure that recipients are real students • We phoned a sample of recipients to confirm that they did receive the scholarship listed by MET, and also to enquire how they used the money • We reconciled the total dollar amount of scholarships awarded as claimed by MET, against the recently audited annual accounts for 2011 and 2012, to confirm the accuracy of the records provided by MET. <p>All of these tests produced satisfactory results. No problems or irregularities were found.</p> <p>Completion of this exercise enabled the Ministry to pay scholarship subsidies in terms of the letter of agreement dated 27 June 2014.</p> |
| 4 November 2014 | <p>Meeting with MET manager.</p> <p>MET manager advised that 2013 accounts are taking longer to prepare than anticipated. MET provided a schedule for the completion of the 2013 and 2014 accounts (31/1/15 and 28/2/15 respectively) and audits (31/3/15 and 30/6/15).</p> <p>We discussed a more detailed schedule setting out the process that MET needs to work through, items that are expected to slow the work, what is being done to address these, and whether they are matters that</p> |

| | |
|------------------|--|
| | <p>will cease and when, or whether the issue in ongoing to provide both MET and the Ministry with a higher level of assurance that the new due dates were achievable, and transparency regarding the issues that MET is facing.</p> <p>We also discussed the governance of MET. MET manager advised that a review of MET's trust deed and the appointment of trustees was on the agenda for the Board's next meeting in the new year (2015).</p> |
| 18 December 2014 | Approval to pay scholarship subsidies for calendar 2012 and 2013 |

RELEASED UNDER THE OFFICIAL INFORMATION ACT

Appendix Three: Scholarships paid

| Calendar year | Number of secondary scholarships | Number of tertiary scholarships | Total number of scholarship recipients |
|---------------|----------------------------------|---------------------------------|--|
| 2011 | 144 | 137 | 281 |
| 2012 | | | |
| 2013 | | | 239 |
| 2014* | 154 | 135 | 289 |

*According to a MET projections – we will confirm this, along with final scholarship numbers for 2012 and the secondary/tertiary analysis for 2012 and 2013.

- Secondary scholarships tend to be either of nil value (being free tuition rather than a dollar amount) or have amounts of \$500 - \$1000 each. They tend to be for consumables associated with secondary schools – uniforms, books, fees of various kinds, money for expenses associated with sporting and cultural activities.
- Tertiary scholarships cover both undergraduate and post-graduate students. They range in value from \$500 per recipient to \$30,000 (2014 figures). They tend to be used both for consumables associated with tertiary study such as books and fees, and also living expenses for students living away from home. This can include students studying overseas.

Appendix 4: Unused subsidy

| Year | Total value of scholarships offered by MET ¹ | Ministry subsidy | Balance of \$664,000 subsidy unused |
|------|---|--------------------------|-------------------------------------|
| 2009 | \$352,100 ² | See footnote 2 | \$311,900 |
| 2010 | \$349,700 | \$349,700 ³ | \$314,300 |
| 2011 | \$622,950 | \$311,475 | \$352,525 |
| 2012 | \$672,950 | \$336,475 | \$327,525 |
| 2013 | \$666,000 | \$333,000 | \$331,000 |
| 2014 | \$729,000 (planned) | \$364,500 (not yet paid) | \$299,500 |

¹ Excluding the Māori and Polynesian Higher Education scholarships, which were in the process of being phased out

² This amount was paid direct to recipients by the Ministry and represented the full value of the scholarships offered by MET. No subsidy was therefore payable by the Ministry to MET

³ 2010 was the last year in which the timelines appear to have proceeded much as planned – ie payment of the subsidy in the same year as the scholarships to which it related, enabling a dollar for dollar subsidy.